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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 001412

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USDOC FOR 4212/ITA/MAC/CPD/CRUSNAK
DOE FOR CHARLES WASHINGTON
EUR ALSO FOR MATT BRYZA
SCA ALSO FOR STEVE MANN
EEB ALSO FOR GALLOGLY AND EIGHMIE

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TAGS: [ENRG](#) [EPET](#) [PREL](#) [TU](#) [IR](#)
SUBJECT: TURKEY-IRAN ADVANCE ENERGY DISCUSSIONS

REF: A. ANKARA 1121
[1](#)B. ANKARA 803
[1](#)C. ANKARA 518

Classified By: DCM NANCY MCELDFOWNEY FOR REASONS 1.5 (B AND D)

[1](#)1. (C) SUMMARY: Although negotiations have been long and difficult, Turkey continues to dally with Iran on energy cooperation. The visit of the Iranian Energy Minister (who is responsible for energy and electricity, but not oil and gas, issues) and a possible reciprocating visit by Guler to Iran indicate that there is progress in a broad bilateral energy wish list. The two energy ministers announced intent to cooperate in the power sector and in trading electricity. We understand that investment in upstream oil and gas production and transit also remains under discussion. Ambassador has delivered repeated strong warnings on Iran to the Energy Minister. Despite the problematic bilateral energy relationship and concerns about Iran's bigger agenda, GOT interlocutors complain that they are under intense pressure from European countries to allow for transit of Iranian gas. END SUMMARY.

Let's Make a Deal On Electricity

[1](#)2. (SBU) On June 1, Turkey and Iran announced agreement in principle to expand electricity trade and jointly build dams and power stations. Iranian Energy Minister Perviz Fattah and his Turkish counterpart Hilmi Guler signed a general MOU referencing intent to increase the capacity of two existing transmission lines between the two countries and to foster joint investments in electricity by public and private sectors of the two countries. Guler announced: "Iran has made its investment environment very attractive. The electricity from the power plants we are planning to build in this country (Iran) could partly be sold to Turkey." In press coverage, Guler referred to plans to upgrade existing and build additional power lines, as well as proposals to jointly build dams and natural gas- or oil-fuelled power

stations in either country. Responding to a question on the USG's possible negative reaction to such cooperation with Iran, Minister Guler said this was not among the topics of discussion with Iran, but characterized the talks as normal relations between two neighboring countries.

But Interest in Upstream Oil and Gas Production and Transit

13. (SBU) Fettah's visit follows April 6 press reports that the GOT is moving forward on energy cooperation with Iran, including investment in its upstream oil and gas production (REF B). These reports stemmed from leaked comprehensive discussions on cooperation in oil and natural gas transit, oil and gas production in Iran, and construction of three natural gas power plants in Iran.

14. (C) Energy Minister Guler's self-styled "informal advisor" on Iran energy, Faruk Demir, corroborated press reports on Turkey-Iran energy cooperation. Confirming that Fettah's brief was limited to electricity, Demir detailed the following elements of the MOU for electricity cooperation:

- Increasing transmission capacity and increasing electricity imports by an incremental 180 MW, over a current token amount transiting Iran from Turkmenistan.
- Sharing and exchanging "peak-time" electricity, taking advantage of different time-zones.
- Building natural gas-fired power plants in Iran dedicated to export of low-cost electricity to Turkey.
- Turkish participation in privatization of energy generation and hydro facilities in Iran.

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Demir articulated a call for cautious engagement with Iran to catalyze positive change and lay groundwork for doing business with a "future Iran". Noting the danger of over-dependence on Russia, he saw Iran as the only viable alternative to provision Turkish and European demand. He was skeptical of the U.S.' (what he termed) over-reliance on Azerbaijan and the trans-Caspian pipeline from Turkmenistan to drive energy diplomacy. Demir advocated the northern Iran route as the only viable way to get Turkmen gas to Turkey. He claimed that Iran was now ready to support privatization, despite Turkey's previous bad experience with business ventures in Iran.

Repeated Warnings - Don't Go There

15. (C) Warning Turkey of the consequences of making any such deals with Iran has been a constant theme of our public and private energy diplomacy. Ambassador has given repeated strong warnings in his regular meetings with Energy Minister Hilmi Guler (most recently, May 9 and March 6 - Refs A and C), underscoring USG and UNSC sanctions on Iran, including ISA. Moreover, he stressed that an Iranian undertaking with Turkey on gas could kill the TCP (trans-Caspian Pipeline) initiative and effectively ensure that Turkmen gas does not reach Turkey or Europe. The press reported Embassy comments on April 7, expressing concern regarding Turkey's plans to cooperate in energy investment in Iran.

16. (C) Despite large Turkish energy imports from Iran, Iran has long proven an unreliable partner for Turkey, especially for gas, and the details of any new arrangements will be difficult to nail down without having fixed the gas pricing issues over which earlier efforts to improve energy relations have faltered. A May 3 Reuters piece took a positive take on Turkey's long international arbitration proceeding with Iran, claiming that the two countries had reached a key stage on revising gas contract provisions in favor of Turkey, and citing a reduction in take-or-pay minimum to 70% from 85%,

comparable to changes in contracts with Russia. Nevertheless, the contract has been brought to international arbitration over not just price, but also poor quality and frequent cuts in supplies.

17. (C) COMMENT AND ACTION REQUEST: Our GOT interlocutors have long stressed that they are under intense pressure from both Iran and Europe and they can only hold out so long. MFA has told us that the Energy Ministry is driving discussions on Iran energy. Various sources have stressed the length and difficulty of the negotiations, emphasizing no firm agreement in hand. Nevertheless, we have learned that Minister Guler is likely planning a reciprocal visit to Iran around June 16-17, which could touch on a range of topics. In regular conversations with U.S. officials he has stressed the need to talk and maintain good neighbor relations. While he has indicated a strong personal preference for alternatives and concern about Iran's political and security agenda, the Energy Minister clearly has advisors that are strongly advocating advancing energy agreements with Iran. We will continue to express unequivocal and strong public and private warnings on the legal and policy consequences of investment in Iran's energy sector. However, we request additional guidance from the department on potential Turkish investment in natural gas-fired power plants in Iran.

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